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PIZZA PATIO MANAGEMENT LTD.

FIFTH ANNUAL REPORT

For the year ended April 30, 1975



Nothing Beatsa Patio Pizza.



PIZZA PATIO MANAGEMENT LTD.

Directors

Jeffrey Barnett
Peter J. Barnett
Norman E. Franks
David J. MacFarlane
Carl McGowan

Officers

Jeffrey Barnett, President
Peter J. Barnett, Secretary
Norman E. Franks, C.A.,
Treasurer

Head Office

1170 Bute St., Vancouver, B.C.

Transfer Agent

Yorkshire Trust Co.

Auditors

Coopers & Lybrand

Bankers

Canadian Imperial Bank of
Commerce

Annual Meeting

Thursday, October 30, 1975



PRESIDENT'S REPORT TO SHAREHOLDERS



Jeffrey Barnett
President

During the past couple of years, the Company's profit picture has not reflected its actual growth due to numerous factors such as developing management teams and capital expansion program which has used much of the working capital. This expansion program, although causing the company to forego profits today will reap substantial profits for the shareholders in the very near future.

This was vividly pointed out to us by a recent study done by a management consulting firm which has stated "Although the Company has depleted its working capital, it has more than replaced this by a fantastic increase in net worth and expected cash flow. The potential net worth of the capital expansion program in light of current market values and discounted cash flows, would give a lender potential security of \$2,054,627. This is calculated as follows:



1. Profit from Japanese operations, including Royalties and sale of ingredients	\$ 778,492
2. Increased value in fixed assets held for future expansion	19,500
3. Increased value in the properties held by Kinsal Holdings Ltd.	132,499
4. Discounted value of Canadian franchise operations, including franchise fees and future royalties	<u>1,124,136</u>
TOTAL \$	<u><u>2,054,627"</u></u>

During this past period, having recognized the operating success of the "Pizza

Pub" style operation, the Company has decided to concentrate on these profit centres and phase-out some of the small original restaurants, that catered to take-out and delivery. During this period the Company has phased-out four (4) of these smaller operations and has added one (1) "Pizza Pub" in Victoria and is in the process of constructing a "Pizza Pub" in Hamilton, Ontario.

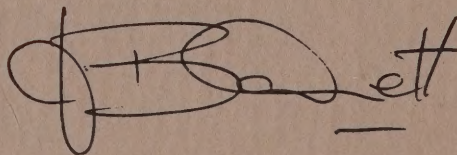
Also, during the past period a major expansion of the franchise operations has been developed and we are pleased to report that after numerous months of costly development the franchise department is now self-supporting and is expected to continue contributing positively to the operations. At the writing of this report, the Company has received deposits on six (6) new franchise operations which should be completed and in

full swing prior to the completion of our next fiscal year.

Pizza Patio Japan Inc., a Company in which we are 50% shareholder, opened its first restaurant in Kobe on December 6 1974, and at the present time has a second restaurant under construction and has entered into its first franchise agreement; both of these restaurants will be opened before the end of 1975. This expansion conforms to the agreement with our Japanese partners whereby they have agreed to open thirty (30) new restaurants within the next five (5) years. Our firm will be receiving income by way of royalties and by an Agreement whereby we supply Pizza Patio pizza mix and Pizza Patio pizza sauce on an on-going basis.

Subsequent to opening in Japan, we have received numerous enquiries from

around the world to set-up similar operations. Every indication is that we will be entering into additional off-shore operations in the future. At present we are actively following-up all enquiries and, hopefully, during the current period we will have something definite to report.

A handwritten signature in dark ink, appearing to read "J. B. S. Jett". The signature is fluid and cursive, with a horizontal line drawn underneath the name.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Pizza Patio Management Ltd. as at April 30, 1975 and the statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at April 30, 1975 and the results of its operations and changes in its

financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

Vancouver, B.C.

June 20, 1975



PIZZA PATIO MANAGEMENT LTD.

BALANCE SHEET

as at April 30, 1975

ASSETS

CURRENT ASSETS

Cash
Accounts receivable (note 4)
Inventory—at the lower of cost and net realizable value
Prepaid expenses and deposits

FIXED ASSETS (notes 2 and 5)

INVESTMENT IN AND ADVANCES TO JOINT VENTURES AND

AFFILIATED COMPANY (note 3)

DEFERRED EXPORT MARKET DEVELOPMENT COSTS, at cost less
amortization.....

GOODWILL, at cost less amortization

OTHER ASSETS

1975

\$

34,457

34,383

90,002

25,127

183,969

377,949

71,654

61,600

61,751

1,972

1974

\$

36,770

11,516

55,623

47,261

151,170

384,585

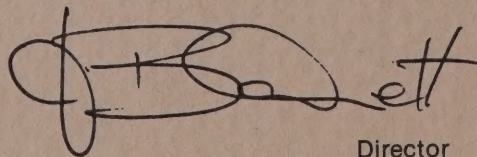
15,315

47,391

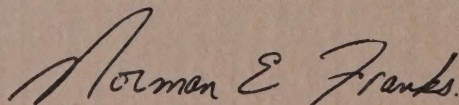
65,001

3,442

Signed on behalf of the Board



Director



Director

758,895

666,904

LIABILITIES**CURRENT LIABILITIES**

Bank advances (note 4)	
Accounts payable and accrued liabilities	
Current portion of long-term debt	

1975**\$**

159,229
204,764
44,855

1974**\$**

130,702
135,023
40,335

DEFERRED FRANCHISE FEE**LONG TERM DEBT** (note 5)**DEFERRED INCOME TAXES**

408,848
4,000

181,184

306,060
3,000

150,473

1,200

594,032

460,733

SHAREHOLDERS' EQUITY**SHARE CAPITAL**

Authorized—

1,000,000 common shares of no par value

Issued and fully paid—

650,000 common shares

(DEFICIT) RETAINED EARNINGS

180,100

(15,237)

180,100

26,071

164,863

206,171

758,895

666,904

PIZZA PATIO MANAGEMENT LTD.

STATEMENT OF DEFICIT

For the year ended April 30, 1975

	1975	1974
	\$	\$
RETAINED EARNINGS—BEGINNING OF YEAR	26,071	48,016
LOSS FOR THE YEAR	41,308	21,945
(DEFICIT) RETAINED EARNINGS—END OF YEAR	(15,237)	26,071

STATEMENT OF EARNINGS

For the year ended April 30, 1975

	1975	1974
	\$	\$
SALES	✓ 1,946,449	✓ 1,643,059
COST OF SALES	<u>518,041</u>	<u>429,923</u>
GROSS PROFIT	<u>1,428,408</u>	<u>1,213,136</u>
EXPENSES		
Advertising and promotion	97,717	113,994
Automobile and delivery	51,740	57,723
Depreciation and amortization	69,723	61,988
Other operating and administration	312,022	224,155
Rent	142,356	112,336
Salaries and wages	<u>833,130</u>	<u>670,870</u>
	<u>1,506,688</u>	<u>1,241,066</u>
LOSS BEFORE FRANCHISE INCOME	78,280	27,930
Franchise fees and royalty income (note 6)	<u>70,361</u>	<u> </u>
NET LOSS BEFORE INCOME TAXES	<u>7,919</u>	<u>27,930</u>
PROVISION FOR INCOME TAXES		
Income taxes paid on sale of know-how	20,910	
Recovery of deferred income taxes	<u>(1,200)</u>	<u>(5,985)</u>
	<u>19,710</u>	<u>(5,985)</u>
LOSS FOR THE YEAR BEFORE EQUITY IN JOINT VENTURE	27,629	21,945
EQUITY IN JOINT VENTURE LOSS FOR THE YEAR	<u>13,679</u>	<u> </u>
LOSS FOR THE YEAR (Note 10)	✓ <u>41,308</u>	✓ <u>21,945</u>

PIZZA PATIO MANAGEMENT LTD.**STATEMENT OF CHANGES IN
FINANCIAL POSITION****For the year ended April 30, 1975****SOURCE OF WORKING CAPITAL**

	1975	1974
	\$	\$
Current operations	49,538	34,816
Franchise fees	1,000	3,000
Long-term debt contracted	60,371	61,660
Fixed asset disposals	18,063	1,650

128,972

101,126**USE OF WORKING CAPITAL**

Long-term debt repaid	29,660	26,709
Export market development costs	16,333	40,706
Fixed asset additions	82,950	78,443
Investment in and advances to Kinsal Holdings Limited		15,001
Investment in Pizza Patio Japan Inc.	70,018	
Other assets		3,090

198,961

163,949**DECREASE IN WORKING CAPITAL****69,989****62,823****WORKING CAPITAL DEFICIENCY—BEGINNING OF YEAR**

154,890

92,067**WORKING CAPITAL DEFICIENCY—END OF YEAR**

224,879

154,890**WORKING CAPITAL DEFICIENCY IS REPRESENTED BY:**

Current assets	183,969	151,170
Current liabilities	408,848	306,060

WORKING CAPITAL DEFICIENCY—END OF YEAR

224,879

154,890

NOTES TO FINANCIAL STATEMENTS

For the year ended April 30, 1975



1. ACCOUNTING POLICIES

(a) Deferred export market development costs

The company has incurred costs in the development of the Japanese market. These costs have been deferred and are being amortized over 15 years, as they relate to the licencing agreement with Pizza Patio Japan Inc. (note 6).

(b) Goodwill

Goodwill is stated at cost which is being amortized over a 20 year period commencing in 1975.

(c) Sales of franchises

Income from the sale of franchises and any related costs incurred in the sale, are deferred until the franchise commences operations, at which time they are taken into earnings for that particular period.

(d) Foreign exchange

The currency of the equity in the joint venture has been converted at foreign exchange rates at April 30, 1975.

(e) Depreciation and amortization

Depreciation is calculated on the reducing balance method, based on the cost of fixed assets using the following annual rates: Automobiles—30%; furniture and equipment—20%. Leasehold improvements are amortized over the term of the lease.

2. FIXED ASSETS

	1975			1974
		Accumulated depreciation and amortization	Net	Net
	Cost			
	\$	\$	\$	\$
Automobiles	19,572	11,986	7,586	11,466
Furniture and equipment	225,645	102,458	123,187	106,401
Leasehold improvements	426,887	179,711	247,176	266,718
	<u>672,104</u>	<u>294,155</u>	<u>377,949</u>	<u>384,585</u>

3. INVESTMENT IN AND ADVANCES TO JOINT VENTURES AND AFFILIATED COMPANY

	1975				1974
			Equity in loss for the period	Total	Total
	Shares \$	Advances \$	\$	\$	\$
JOINT VENTURE—					
On equity basis					
Pizza Patio Japan Inc.	70,018		(13,679)	56,339	
Kinsal Holdings Ltd.	1	15,000		15,001	15,001
AFFILIATED COMPANY—at cost					
Pizza Patio Management (Ontario) Ltd.	4	310		314	314
	70,023	15,310	(13,679)	71,654	15,315

The company has acquired a 50% interest in the issued capital of a newly incorporated company, Pizza Patio Japan, Inc. which is a corporate joint venture (note 6). This investment is accounted for on the equity basis and accordingly the cost of the investment of \$140,037 has been reduced by \$70,019 being the elimination of 50% of the gain on the company's sale of 'know-how' to Pizza Patio Japan Inc. The carrying value of the investment on an equity basis has been further reduced by 13,679 to recognize the company's share of the loss incurred by Pizza Patio Japan Inc. to April 30, 1975.

Kinsal Holdings Ltd. has not had any earnings or losses since its incorporation and accordingly no equity in earnings or losses exists.

The financial statements of the company's wholly-owned subsidiary, Pizza Patio Management (Ontario) Ltd. have not been consolidated with these financial statements because this subsidiary company has been inactive since its incorporation.

4. BANK ADVANCES

	1975 \$	1974 \$
Bank overdraft, after providing for outstanding cheques and deposits	59,229	60,702
Bank loan, secured by a general assignment of accounts receivable . .	100,000	70,000
	<u>159,229</u>	<u>130,702</u>

5. LONG-TERM DEBT

	1975 \$	1974 \$
Industrial Development Bank (I.D.B.) loan (No. 1) with interest at 11% repayable in thirty-seven monthly installments of \$3,200 plus accrued interest. Repayments are to commence when the I.D.B. loan (No. 2) has been repaid. Security for the loan is various mortgages by way of sub-leases on retail shops as well as a mortgage on various items of equipment	118,400	118,400
I.D.B. loan (No. 2) with interest at 11%, repayable in twenty-four monthly installments of \$3,000 plus accrued interest. The loan is secured by a floating charge on the assets of the company and its wholly-owned subsidiary company	37,000	
Export market development loan provided by the Canadian federal government under an agreement dated August 1, 1973 whereby the government agreed to loan the company up to \$13,610 for costs it incurred in developing an export market. This loan is without interest and is repayable from future export market contract revenue	<u>13,298</u>	<u>13,415</u>
Carried forward	168,698	131,815

5. LONG-TERM DEBT (continued)	1975	1974
	\$	\$
Brought forward	168,698	131,815
Note payable to shareholders, resulting from the winding up of an affiliated company, without interest and repayable at \$10,000 per annum. Repayment of this note is to be deferred until the I.D.B. loans have been repaid and consent has been given by the company's bank	40,262	40,262
Due to shareholders, without interest and repayable in 1976	5,146	4,357
Business improvement loan		3,333
Note payable to the University Heights Shopping Centre Ltd. with interest at 11 %, repayable in sixty monthly installments of \$190 plus accrued interest	7,891	
Conditional sales agreements, including varying rates of interest and at varying repayment terms, secured by certain fixed assets	4,042	11,041
	226,039	190,808
Less: Current portion	44,855	40,335
	181,184	150,473

During the year the company paid \$17,337 (1974—\$10,887) interest on long-term debt.

6. LICENCING AND TECHNICAL ASSISTANCE AGREEMENT

The company has entered into an agreement with Pizza Patio Japan Inc. (PPJ) under the terms of which PPJ is to establish, promote and operate Pizza Patio restaurants throughout designated areas of South East Asia. The company has licenced PPJ to use the company's trade names and marks and is committed to supply technical assistance and to sell its pizza products for the term of the agreement. PPJ has, for the technical services rendered, agreed to pay the company a royalty equal to 1% of the gross sales for the first year and 1½ % thereafter. The agreement is effective for a period of ten years and will be automatically renewed for successive five year terms unless terminated by either party.

7. COMMITMENTS

The company has lease commitments for its retail pizza premises and equipment ranging up to ten years with options to renew. The total rental charge for the year ended April 30, 1975 was approximately \$140,000. Minimum annual rentals for the next five fiscal years, based on present leases for shops now in operation and under construction, are approximately:

	\$
1976	151,000
1977	142,000
1978	142,000
1979	135,000
1980	128,000

8. REMUNERATION TO DIRECTORS AND SENIOR OFFICERS

Remuneration paid to the directors and senior officers of the company, as defined by the British Columbia Companies Act, for the year ended April 30, 1975 amounted to \$90,216 (1974—\$77,506) for their services as employees of the company.

No directors' fees were paid during the year.

9. SUBSEQUENT EVENT

The company has entered into an agreement signed June 20, 1975 with Holmes & Renstad Marketing Ltd. (H. & R. M.) under which H.&R.M. has been appointed as agent to sell Pizza Patio restaurant franchises in Canada.

H.&R.M. has guaranteed the company \$4,000 per month for the term of the contract, such payment will be credited towards the net franchise fee which may become payable to the company under the terms of the agreement. The term of the agreement is fifteen years or until H.&R.M. terminates the agreement (with a minimum of twelve months).

10. LOSS PER SHARE

Loss per share for 1975 was 6¢ and for 1974 was 3¢.



Nothing Beatsa Patio Pizza®

PIZZA PATIO RESTAURANTS

VANCOUVER, B.C.

DOWNTOWN:

West End—

*1202 Davie Street

Theatre Row—

*910 Granville Street

English Bay—

*998 Denman Street

KERRISDALE:

2295 W. 41st Avenue

SOUTH VANCOUVER:

5519 Victoria Drive

EAST VANCOUVER:

2647 E. Hastings Street

MOUNT PLEASANT:

*Kingsgate Shopping Centre

370 E. Broadway

BURNABY, B.C.

*4623 Kingsway

RICHMOND, B.C.

*608 No. 3 Road

VICTORIA, B.C.

*University Heights

Shopping Centre

PORT ALBERNI, B.C.

*112 3rd. Avenue North

TORONTO, ONTARIO:

**3391 Yonge Street

**210 Bloor Street West

*Licensed under the laws of the Liquor Control Board of British Columbia.

**Licensed under the laws of the Liquor Control Board of Ontario.



Port Alberni, B.C.



Nothing Beatsa Patio Pizza.